



FOR IMMEDIATE RELEASE
Thursday, January 3, 2008

GOVERNOR RELEASES CURRENT BUDGET 'FIXES'
Budget Proposal Streamlines Government, Preserves Education

PHOENIX – Next week, the Arizona Legislature will begin its work to adjust the current budget (Fiscal Year 2008) to accommodate an estimated revenue shortfall of \$870 million.

Today, in advance of those hearings, Governor Janet Napolitano released her detailed plan that not only balances that shortfall, but preserves valuable investments in education, care for children and vulnerable adults, does not raise taxes, and does not cut basic state services.

“Arizona has a brilliant future. This is a temporary dip in our economy, and we will work our way through it, just as we have before,” said Governor Napolitano. “Arizonans have told me, time and again, what’s important to them: education and solid investment in the future of this growing state. I believe in the wisdom of the people of Arizona, and it makes good sense to put that wisdom into action.”

Earlier this year, it became clear that Arizona’s revenues were coming in below projections, due mostly to the softening of the real estate market. In July, the Governor’s budget office began working with state agencies, finding ways to streamline budgets and avoid new spending. That approach has worked well. The plan released today incorporates further agency savings, along with bonding for new school construction and use of the state’s savings account to balance the budget.

The Governor’s plan is intended to help jumpstart the legislature’s deliberations, allowing quick action to correct the current budget.

The Governor’s Budget Management Plan is as follows:

| | |
|-------------------------------------|----------------------|
| State Agency Budget Savings | \$214,000,000 |
| K-12 Capital Financing | 393,000,000 |
| Rainy Day Fund | <u>263,000,000</u> |
| Total Budget Management Plan | \$870,000,000 |

State Agency Budget Savings

At the Governor's direction, state agencies have been streamlining budgets since September. The \$214 million total includes reductions of \$19.4 million to the Department of Corrections and \$5.2 million to the Department of Health Services. Details of individual agency cuts are attached.

K-12 Capital Financing

Arizona currently spends more than \$400 million per year on new school construction. For the current year, the Legislature provided \$370 million in cash to build schools. However, with lower than expected revenues and higher than expected new school construction costs, the Governor proposes to finance the cost of new schools, much the way homeowners take a mortgage to buy a new house.

Arizona typically uses capital financing for state buildings, for universities, and for roads; in the current budget, only school buildings are paid for in cash. In nearly every state, state and local governments use long-term financing for new schools. Further, with current favorable market conditions, long-term financing will cost the state less than 5 percent. By using this kind of financing, the Governor's plan frees nearly \$400 million to fund Arizona's priorities.

Rainy Day Fund

Back in 1990, the Arizona Legislature created the Budget Stabilization Fund (also known as the Rainy Day Fund) to set aside revenue during good budget years to sustain the state during years when revenue is not as good. The current balance in the Rainy Day Fund is \$685 million. The Governor proposes to transfer only \$263 million, leaving a balance in the fund of \$422 million. As Governor Napolitano put it, "The state has a rainy day fund for a reason. It's raining on our economy right now, and it's the right time to tap our savings, knowing that when the economy turns up again, we'll be able to replenish our account."

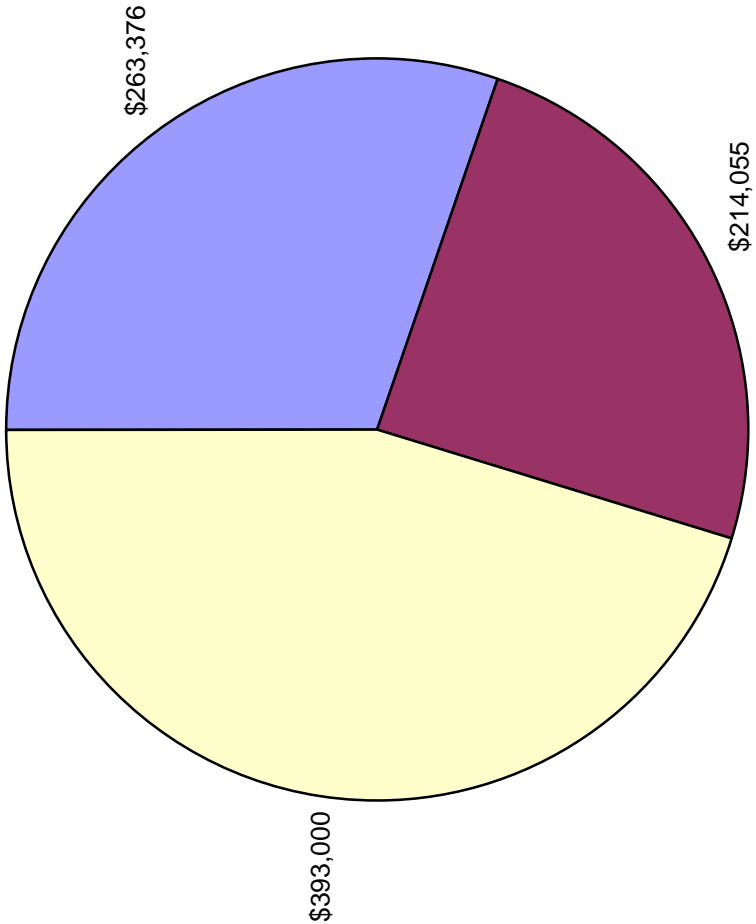
The full text of the Governor's proposal is online at www.azgovernor.gov.

Attached:

- A chart depicting the Governor's Budget Management Plan.
- Information on the Rainy Day Fund, and Agency Savings
- Further detail regarding specific agency savings.
- A discussion of the value of capital financing.
- The current revenue forecast.
- A current summary of the Governor's Arizona budget proposal for FY 2008.

For more information about the Office of the Governor, please visit www.azgovernor.gov.

**FY08 Budget Management Plan
(000s)**



■ Rainy Day Fund ■ Budget Savings ■ K-12 Capital Finance

RAINY DAY FUND (BUDGET STABILIZATION FUND) TRANSFER

Summary

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (A.R.S. § 35-144). The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth. It is, in essence, the state's savings account. In prior years, the BSF has been tapped for uses not originally intended by the statute. For example, funds from the BSF were used to pay for the Arizona State Hospital in Fiscal Years 2000-2003 and in Fiscal years 2001-2007 BSF funds were transferred for payments on the Alternative Fuels Tax Credit. The use of the BSF in the Governor's Budget Management Plan is exactly consistent with the intended use of the fund.

The current cash balance in the BSF is in excess of \$685 million¹ after a transfer of \$18.6 million in excess balance to the General Fund. The Governor's proposal is to transfer \$263 million to the General Fund to help balance the FY 2008 budget, utilizing the BSF for its intended purpose. This leaves \$422 million plus any unrealized investment gains in the BSF.

STATE AGENCY BUDGET SAVINGS

State Agency Spending Reductions

| | |
|--|-----------------------|
| • Department of Corrections | \$19.4 million |
| • Economic Security | \$ 6.5 million |
| • Commission for Postsecondary Education | \$ 5.3 million |
| • Department of Health Services | \$ 5.2 million |
| • AHCCCS | \$ 3.9 million |
| • Department of Revenue | \$ 2.4 million |
| • Other | <u>\$32.8 million</u> |

| | |
|-------|----------------|
| Total | \$75.5 million |
|-------|----------------|

Spending Reductions from Fund Balances²

| | |
|---|------------------------|
| • Citizen's Clean Election Fund | \$ 24.0 million |
| • State Aviation Fund | \$ 15.0 million |
| • Underground Storage Tank Revolving Fund | \$ 12.8 million |
| • Housing Trust Fund | \$ 6.5 million |
| • Clean Air In-Lieu Fee Account | \$ 6.1 million |
| • Supreme Court CJEF Disbursement Fund | \$ 6.0 million |
| • Other | <u>\$ 57.9 million</u> |

| | |
|-------|-----------------|
| Total | \$128.2 million |
|-------|-----------------|

Ex-Appropriations of Capital Outlay and Continuing Appropriations \$ 10.3 million

| | |
|--|------------------------|
| TOTAL STATE AGENCY BUDGET SAVINGS | \$214.1 million |
|--|------------------------|

¹ Through November 2007.

² Fund balances are part of Agency total resources available for operating or capital needs. Reductions to these balances represent real cuts to the resources agencies have at their disposal.

**IMPACT OF SELECTED STATE AGENCY BUDGET SAVINGS
FY 2008**

1. Reduce the expected number of Arizona inmates housed in Indiana by 630. (\$14.8 million)
2. Include funding of schematic design for Universities Biomedical campus in capital financing plan for FY09. (\$10.5 million)
3. Reduce funds available for Private Postsecondary Education grants. (\$5 million)
4. Defer the development of the call center portion of the 2-1-1 system. (\$1.9 million)
5. Revise the loading schedule for inmate beds in Oklahoma. (Effectively stretch out the loading of the first 916 inmates by five weeks and the remaining 424 inmates by thirteen weeks.) (\$1.6 million)
6. Reduce by one in number of rural organizations or community E-Health collaborations that can be funded from GITA. (\$100,000)
7. Eliminate new technology grant program. (\$1 million)
8. Delay in planned expansion of the arrestee DNA testing program. (\$600,000)
9. Defer the replacement of the AHCCCS claims computer system. (\$500,000)
10. Delay in preparation of twelve parcels of land for auction by the State Land Department. (\$300,000)
11. Delay in hiring of four new detention transport Officers. (\$250,000)
12. Reduce the number of Highway Patrol vehicles replaced this year from 171 to 165.
13. Slow the processing time for claims made to the Department of Insurance Consumer Services Division.
14. Reduce or eliminate tuition reimbursements.
15. Delay/reduce funding for technology enhancements.
16. Reduce/eliminate both in-state and out of state travel.
17. Generate vacancy savings through hiring deferrals.

K-12 Capital Finance

Financing New Schools – Improving the K-12 Capital System

The State of Arizona currently spends over \$400 million per year on new school construction and anticipates spending over \$500 million per year within the next three years. For FY 2008, the Legislature provided \$370 million in General Fund monies to the School Facilities Board to provide for this need. However, with lower than expected revenues and higher than expected new school construction costs, the State must look to other means to provide for K-12 capital needs.

The Governor has proposed financing the cost of building new schools. There are several reasons why financing new school costs is the right step for Arizona.

1. In almost every state, state and local governments use long-term financing for new schools.
2. Long-term financing is used by families, businesses, and local governments to acquire long-term capital assets.
3. The state uses capital financing for the construction of government buildings, universities and for roads.
4. Future Arizonans will benefit from schools built today for the next 50 years so it is fair for future Arizona beneficiaries share in the cost of building and financing their schools.
5. Current financing market conditions are favorable. Long-term financing will cost the state less than 5 percent.
6. The new school construction program needs to be expanded to accommodate full-day kindergarten. Financing provides the ability to complete this expansion today.
7. Financing new schools creates opportunities to implement 21st century improvements in school infrastructure including improvements in energy, safety, and technology.
8. Financing in FY 2008 will free approximately \$400 million in General Fund dollars to help balance the Budget.
9. Financing in FY 2009 will free more than \$400 million in General Fund dollars for other priorities.
10. Over the next five years, long-term financing would reduce the General Fund cost of new school construction by \$2.2 billion allowing the State to invest in other critical areas such as, healthcare, K-12 education, universities and public safety.
11. New schools are capital assets with a use period exceeding 50 years. Roads, as a comparison, only have a 30 to 40 year expected life.

FY08
Revenue Forecast
General Fund
(Dollars in Millions)

| | Actual FY06 | Enacted Budget FY 07 | % change | Actual FY07 | % change from FY06 | Enacted Budget FY 2008 | % change from Actual FY07 | Current Estimate FY 08 | % change from Actual FY07 |
|---------------------------------------|------------------|----------------------------|--------------|------------------|--------------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|
| Individual Income Tax | 3,689.5 | 3,857.0 | 4.5% | 3,735.7 | 1.3% | 3,972.0 | 6.3% | 3,746.1 | 0.3% |
| Corporate Income Tax | 874.2 | 1,014.2 | 16.0% | 986.2 | 12.8% | 995.4 | 0.9% | 935.5 | -5.1% |
| Transaction Privilege and Use Tax | 4,273.4 | 4,559.8 | 6.7% | 4,457.5 | 4.3% | 4,899.9 | 9.9% | 4,633.2 | 3.9% |
| Other Taxes | 480.0 | 487.8 | 1.6% | 492.7 | 2.6% | 460.6 | -6.5% | 507.3 | 3.0% |
| Total Taxes | <u>\$9,317.1</u> | <u>\$9,918.8</u> | <u>6.5%</u> | <u>\$9,672.1</u> | <u>3.8%</u> | <u>\$10,327.9</u> | <u>6.8%</u> | <u>\$9,822.1</u> | <u>1.6%</u> |
| Urban Revenue Sharing | <u>(\$425.2)</u> | <u>(\$551.2)</u> | <u>29.6%</u> | <u>(\$551.2)</u> | <u>29.6%</u> | <u>(\$684.5)</u> | <u>24.2%</u> | <u>(\$684.5)</u> | <u>24.2%</u> |
| TOTAL TAXES NET URS | \$8,891.8 | \$9,367.5 | 5.3% | \$9,120.9 | 2.6% | \$9,643.4 | 5.7% | \$9,137.5 | 0.2% |
| Non-Tax Revenues | <u>\$274.9</u> | <u>\$310.4</u> | <u>12.9%</u> | <u>\$323.7</u> | <u>17.8%</u> | <u>\$314.1</u> | <u>-3.0%</u> | <u>\$312.2</u> | <u>-3.5%</u> |
| TAX AND NON-TAX REVENUES | \$9,166.7 | \$9,678.0 | 5.6% | \$9,444.5 | 3.0% | \$9,957.5 | 5.4% | \$9,449.7 | 0.1% |
| Disproportionate Share Adjustments | \$108.0 | \$113.1 | | \$113.1 | | \$73.6 | | \$73.9 | |
| | <u>\$10.0</u> | | | | | | | | |
| TOTAL ALL REVENUES | \$9,284.7 | \$9,791.1 | 5.5% | \$9,557.7 | 2.9% | \$10,031.1 | 5.0% | \$9,523.6 | -0.4% |

**FY08 SOURCES AND USES
BUDGET MANAGEMENT PLAN
(\$000)**

| | FY 2007 Actuals | FY 2008 Enacted Budget | FY 2008 December Estimate |
|---|--------------------------------------|------------------------------|---------------------------------|
| SOURCES OF FUNDS | | | |
| Balance Forward | 1,046,460.1 | 529,029.6 | 377,947.0 |
| <i>Adjustment to Balance Forward</i> | (23,555.0) | 0.0 | 0.0 |
| Base Revenues | 10,108,900.7 | 10,715,570.9 | 10,208,103.3 |
| <i>Urban Revenue Sharing</i> | (551,230.7) | (684,538.9) | (684,538.9) |
| Adjusted Base Revenues | 9,557,670.1 | 10,031,032.0 | 9,523,564.4 |
| SFB Building Renewal Transfer 1/ | 60,080.5 | 0.0 | 0.0 |
| Ladewig Refunds | (80,735.9) | 0.0 | 0.0 |
| Unclaimed Property | 0.0 | 45,000.0 | 45,000.0 |
| Excess Balance Transfer from BSF | 18,576.0 | 0.0 | 0.0 |
| TOTAL SOURCES OF FUNDS | 10,578,495.8 | 10,605,061.6 | 9,946,511.5 |
| Total Operating Budgets | 9,771,306.3 | 10,643,946.4 | 10,643,946.4 |
| Reserve for Budget Supplemental Requirements 2/ | 0.0 | 0.0 | 120,714.6 |
| Payback K-12 Rollover 3/ | 191,000.0 | 0.0 | 0.0 |
| Total Operating Budgets | 9,962,306.3 | 10,643,946.4 | 10,764,661.0 |
| Building Renewal and Capital Outlay | 80,354.2 | 19,934.5 | 19,934.5 |
| Highway Construction | 245,000.0 | 0.0 | 0.0 |
| Administrative Adjustments 4/ | 75,105.5 | 65,163.0 | 97,700.0 |
| Revertments 5/ | (162,217.2) | (125,283.1) | (75,352.6) |
| Reserve for Ending Balance | 0.0 | 0.0 | 10,000.0 |
| USES OF FUNDS | 10,200,548.8 | 10,603,760.8 | 10,816,942.9 |
| ENDING BALANCE | 377,947.0 | 1,300.8 | (870,431.4) |
| <i>Budget Management Plan</i> | | | |
| | <i>Budget Savings</i> | | 214,055.1 |
| | <i>Rainy Day Fund (BSF) Transfer</i> | | 263,376.3 |
| | <i>K-12 Capital Finance</i> | | 393,000.0 |
| ENDING BALANCE AFTER BUDGET MANAGEMENT | | | 10,000.0 |

1/ In FY 2006, Laws 2005 Chapter 287 Section 9 required the transfer of \$60 million from the Building Renewal Fund to the General Fund. This transfer was not implemented until FY 2007.

2/ The FY 2007 Total Operating Budget of \$9.7 billion includes 2007 Supplementals.

3/ \$191M K-12 Rollover was recorded as a FY06 appropriation, but did not occur in FY06 as intended by the legislation since the effective date of the appropriation was beyond the end of FY06. Therefore this amount is shown in FY07.

4/ Administrative Adjustments reflect payments which occur after the fiscal year ends for goods and services purchased during the fiscal year. Typically these are the result of invoicing delays or the timing of payment processing. Because the accounting books have been closed for the fiscal year, the expenditures are counted in the subsequent year.

5/ Revertments reflect remaining unexpended agency appropriations at the end of the fiscal year. This is commonly the result of unrealized caseload or formula funding growth, vacancy savings, operating efficiency initiatives or other savings resulting from normal operations management. These are not the result of directed budget reductions which typically include decreased appropriations.